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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 315 **October, 1986**

Business in Virginia September, 1986 Data

Virginia's economic indicators showed lower growth rates this September than in September 1985. The one exception was bank debits, the dollar amount of checks cleared by banks in the State's urban areas, which rose by 27.0 percent from September 85 to September 86, compared to a 15.6 percent gain during the previous twelve months. All other September indicators recorded lower growth this year compared to the growth rates in September 1985: building permits, electricity consumed, newspaper advertising linage, new car registrations, water consumed, and our retail sales sample.

Slower growth does not neceessarily mean low growth. For example, new car registrations in September jumped to 19.5 percent above the same month last year, in response to the exceptional financial terms offered by dealers. That did raise new car sales to an extraordinary level. However, in September 1985 the response to special promotions was a 31.0 percent increase, not only a higher growth rate but a larger increase in the number of cars sold. Even so, this September's 19.5 percent gain is a very high growth rate, one which indicates a substantial amount of borrowing from future car sales. That growth rate is over four times as large as the real (inflation-adjusted) rate of growth in Virginia's personal income, so that pace of new car buying is not sustainable in future months.

In some key sectors, the slower growth is low growth, or no growth at all. For example, building permits in Virginia's urban areas fell 7.6 percent in September compared to a year ago. That follows a 4.8 percent decline in August. The exceptional building boom experienced since 1982 in Virginia (discussed in last month's issue) appears to have passed its peak. Look for further decreases statewide and in more cities, in the months ahead.

Our sample of retail stores reported a 3.7 percent increase in sales per store in September. That is below the year-over-year increase of 6.5 percent in July and 5.3 percent in August. The growth in the State's total taxable sales also slowed to less than ten percent in July and August, when the taxable sales gains were 7.0 percent and 5.1 percent, respectively.

A broader review of 1986 also confirms that Virginia's economic growth is slowing down, as expected. The Federal government now has released the state's personal income statistics for the second quarter of 1986. These data show Virginia's personal income for the first half of 1986 was 7.1 percent higher than in the first half of 1985. Good growth, but below the 8.4 percent growth rate achieved for calendar year 1985. That slower growth in personal income is continuing, and it foreshadows slower growth in retail sales and construction. Taxable sales in the first six months of 1986 were up 10.6 percent compared to the first half of 1985, a growth rate well above the growth in Virginia's income. Retail trade growth did slow down in Virginia in the third quarter. Fourth quarter gains also are likely to be under ten percent, more in line with income growth.

Looking to our cumulative data in Table III, covering the first nine months of 1986 compared to the same period in 1985 (first eight months for the two lagged series, nonagricultural employment and taxable sales), only four series showed higher year-to-date growth in 1986 than in 1985. Those were building permits, up a cumulative 23.8 percent this year compared to 5.3 percent last year; electricity consumed, up 8.4 percent versus 4.0 percent; water consumed, up 5.2 percent versus 4.3 percent; and bank debits, up 22.9 percent compared to 5.0 percent. Electricity and water consumption growth rates have reflected the building boom as well as a rebound in Virginia manufacturing activity, and bank debits certainly have been influenced by the construction boom and high growth in consumer durable good purchases. With lower employment and income growth, slower

Chart I

Nine Selected Business & Economic Indicators Percentage Change

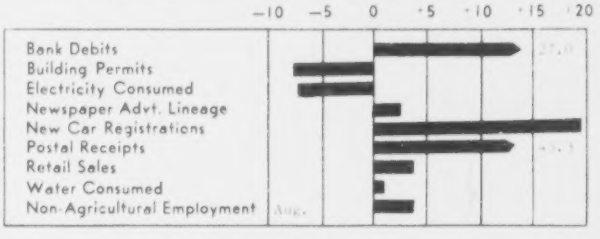
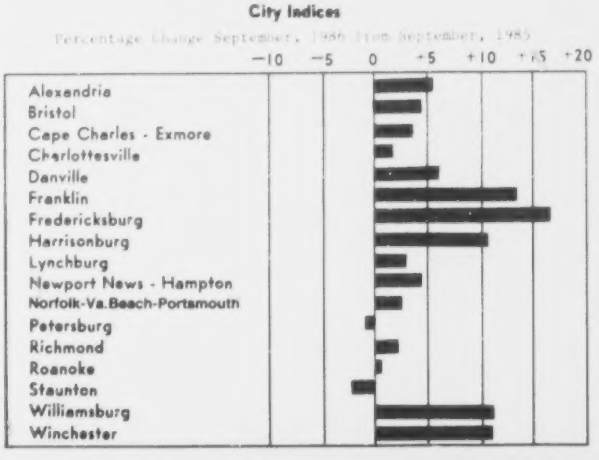


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES

TABLE I — September 1986

Monthly Data Seasonally Unadjusted Except Where Noted
Latest Month or Period Shown: September 1986

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER LINAGE	NEW CAR REGISTRATIONS	August NON-AGRICULTURAL EMPLOYMENT†	WATER CONSUMED	RETAIL SALES ‡	POSTAL RECEIPTS
The State		329.5	178.1	137.0	306.0	44.9	110.9	94.4	100.6	123.0
Alexandria	199.4	331.4	168.2	190.9	N.A.	14.2	106.3	92.1	263.7	N.A.
Bristol	94.2	N.A.	82.5	90.2	77.8	132.9	108.8	129.5	110.8	100.2
Cape Charles - Exmore	135.8	N.A.	206.2	125.6	N.A.	129.5	N.A.	N.A.	130.9	189.4
Charlottesville	139.1	311.8	229.0	143.2	N.A.	150.1	101.7	126.6	249.1	103.1
Danville	78.9	N.A.	83.6	115.4	117.8	94.3	82.9	N.A.	122.9	92.9
Franklin	164.6	N.A.	148.1	153.8	117.8	208.4	95.0	109.0	111.4	206.7
Fredericksburg	101.6	92.6	93.7	N.A.	133.6	242.4	N.A.	94.9	188.8	77.6
Harrisonburg	203.2	416.3	349.3	N.A.	127.7	128.0	N.A.	108.2	253.8	66.6
Lynchburg	99.7	97.1	123.8	121.7	N.A.	146.1	98.8	115.0	121.4	87.1
Newport News - Hampton	149.8	N.A.	470.0	128.7	91.9	148.1	110.4	133.4	186.8	N.A.
Norfolk - Va. Beach - Portsmouth	115.4	117.5	205.3	143.7	88.8	144.1		92.0	145.4	N.A.
Petersburg	138.3	261.2	308.4	N.A.	28.2	116.3		86.2	112.1	213.6
Richmond	193.4	416.1	182.0	148.8	116.9	168.6	100.0	114.6	201.1	470.5
Roanoke	176.2	448.0	92.0	203.0	165.4	114.2	111....	99.8	228.8	199.1
Staunton	141.9	116.0	321.2	N.A.	71.9	132.3	N.A.	N.A.	132.8	63.6
Williamsburg	176.1	181.1	184.4	163.1	N.A.	16.9	N.A.	138.8	174.9	199.9
Winchester	170.4	349.4	86.0	130.8	208.9	171.6	N.A.	N.A.	N.A.	N.A.

TABLE II — September 1986

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER LINAGE	NEW CAR REGISTRATIONS	August NON-AGRICULTURAL EMPLOYMENT†	WATER CONSUMED	RETAIL SALES ‡	August RETAIL SALES ‡
The State		27.0	-7.9	+6.6	2.6	19.5	3.2	0.0	3.3	5.1
Alexandria	5.2	12.2	8.9	-4.1	N.A.	19.6	+.7	+.6	- 2.7	20.0
Bristol	4.5	N.A.	-66.1	-7.1	-11.9	11.1	1.8	2.9	-1.6	+3.0
Cape Charles - Exmore	1.1	N.A.	-65.1	+6.8	N.A.	26.1	N.A.	19.8	+6.9	-5.6
Charlottesville	2.8	16.9	-65.6	-8.8	N.A.	35.7	+.1	0.0	+4.3	1.8
Danville	6.1	N.A.	-66.6	-1.4	22.8	38.3	-0.2	+0.8	N.A.	+3.0
Franklin	13.8	N.A.	66.0	+0.5	5.0	14.1	N.A.	+4.0	+7.8	-20.0
Fredericksburg	16.7	17.8	+81.2	N.A.	7.7	57.1	N.A.	9.2	13.8	26.3
Harrisonburg	10.6	16.1	98.3	N.A.	+.2	7.6	N.A.	1.8	14.1	+4.4
Lynchburg	7.6	+15.0	90.8	1.8	N.A.	17.9	3.0	+4.0	+0.9	-2.8
Newport News - Hampton	2.9	N.A.	8.8	+4.3	-7.1	19.1	-.]	1.8	3.6	+4.9
Norfolk - Va. Beach - Portsmouth	2.4	21.1	+19.0	+14.5	8.9	14.8		+1.1	0.8	+1.1
Petersburg	+1.0	151.9	813.4	N.A.	-11.2	10.1		-13.8	2.8	3.1
Richmond	4.2	11.3	-20.4	-9.4	+4.3	9.0	-.]	1.0	8.4	-1.8
Roanoke	9.2	10.8	85.3	+4.0	8.0	+.0	.2	-2.4	0.0	+11.4
Staunton	-2.1	21.6	99.0	N.A.	-1.2	5.4	N.A.	N.A.	+3.2	-4.5
Williamsburg	11.0	12.7	131.1	-10.8	N.A.	18.0	N.A.	6.8	....	16.9
Winchester	10.6	+41.1	+4.7	3.0	12.7	19.3	N.A.	N.A.	N.A.	10.4

TABLE III — Percentage Change January - September from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER LINAGE	NEW CAR REGISTRATIONS	Jan.-Aug. NON-AGRICULTURAL EMPLOYMENT†#	WATER CONSUMED	RETAIL SALES ‡	Jan.-Aug. RETAIL SALES ‡
The State		22.9	21.8	8.4	+.1	14.0	+.1	5.2	1.6	9.3
Alexandria	6.4	27.8	-51.8	12.5	N.A.	16.0	7.5	-9.4	2.1	13.0
Bristol	3.0	N.A.	-47.2	8.1	1.4	18.1	5.3	9.2	+8.6	11.3
Cape Charles - Exmore	7.7	N.A.	66.2	9.1	N.A.	25.6	N.A.	27.7	+9.3	7.7
Charlottesville	7.0	80.2	-18.5	6.9	N.A.	6.7	3.4	10.2	+5.2	13.2
Danville	3.9	N.A.	19.2	5.0	0.6	10.4	0.4	0.9	N.A.	6.4
Franklin	10.2	N.A.	-11.4	7.8	3.7	+4.8	N.A.	+.3	-1.7	+4.6
Fredericksburg	12.0	2.6	-12.0	N.A.	6.2	17.8	N.A.	9.6	14.3	12.7
Harrisonburg	8.0	N.A.	5.3	N.A.	0.5	15.0	N.A.	+.0	6.8	16.3
Lynchburg	6.9	7.0	-3.7	6.8	N.A.	2.4	3.2	+.9	9.1	10.1
Newport News - Hampton	6.6	N.A.	68.9	8.1	+.1	10.6	+.]	2.4	6.8	9.0
Norfolk - Va. Beach - Portsmouth	6.3	22.6	11.5	7.0	+.8	15.9		12.1	8.5	9.1
Petersburg	+.1	52.2	161.4	N.A.	N.A.	13.9		5.4	0.9	5.5
Richmond	+.1	29.2	N.A.	3.6	-1.3	14.7	2.2]	2.2	3.4	5.2
Roanoke	5.1	-5.2	5.2	6.6	8.9	13.5	2.9	8.6	-1.2	13.0
Staunton	+.1	12.2	-11.3	N.A.	8.2	16.1	N.A.	N.A.	-3.8	12.2
Williamsburg	9.9	-15.4	71.6	5.8	N.A.	12.1	N.A.	3.1	5.4	-5.9
Winchester	14.8	-1.9	-22.3	7.5	11.0	22.3	N.A.	N.A.	N.A.	18.1

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
...Only total MSA data are available for these areas

N.A. — Not Available
O.O. — No Change

growth in retail sales, and declining building activity, all four of these series also can be expected to grow more slowly in the coming months.

Recent data show Virginia's growth definitely is slowing down. The deceleration is gentle, not hard braking, and no recession is in sight for the state. On the other hand, the current trends and forces at work indicate the deceleration will continue in the fourth quarter and in 1987. What are the likely growth rates for 1987? We currently are working on our forecasts, which will be in the November issue. RLP

BUSINESS GROWTH IN VIRGINIA

Herrington J. Bryce
Visiting Commonwealth Professor
School of Business Administration
College of William and Mary

Recently released data by the U.S. Bureau of the Census show that the growth in the number of business establishments in the State of Virginia has been faster than in the nation as a whole.

The data reveal that between 1983 and 1984 (latest period reported) the growth in the number of establishments in the nation as a whole was 4.0 percent, but in the State of Virginia it was 5.9 percent. The State outperformed the nation especially in the rate at which the number of very small business establishments grew. Some 3,000 new units employing one to four persons each were formed in the State in the one-year period, representing a growth rate of 4.2 percent compared to only 2.4 percent in the nation.

While the growth in these small establishments was especially impressive, the State outperformed the nation among establishments of each and every size — except in the 100-249 employee size, as shown in Table V. During the year eight new establishments employing 1,000 or more persons were located in the State, reflecting a growth rate that was three times as fast as the national one in this size category.

The growth was not geographically concentrated. Many counties across the State outperformed the nation. These include Fairfax, Chesterfield, Hanover, Loudoun and Prince William. On the other hand, Arlington County with an overall growth rate of 2.1 percent and cities such as Norfolk, Portsmouth and Petersburg significantly underperformed the State and other local jurisdictions. The growth in Norfolk City was less than 1 percent compared to over 8 percent in cities such as Chesapeake, Danville, Fredericksburg and Virginia Beach.

The growth in the number of establishments was 10 percent in Prince William County — the fastest among large state jurisdictions, those with more than 1,000 establishments in 1983. But the largest number of new establishments, 1,092, was in Fairfax County, creating a growth rate of 8.7 percent in one year. These new units were not concentrated in Fairfax City. The City showed a net gain of only 61 out of the 1,092 new establishments. Like the State, the largest number of new establishments in Fairfax County was in the category of units with less than 5 employees. These small units account for 546 of the County's 1,092 new establishments, exactly one-half of the total. However the county also boasts a healthy growth rate in each of the other size classes including the 1,000 or more employee class, where the county acquired three of the eight new firms in the State.

Virginia's high growth in the number of establishments translates into high growth in job opportunities and payroll. The number of employees in business establishments in the State rose by 8.4 percent compared to 6.9 percent in the country as a whole during this one-year period. Annual payroll dollars flowing from all business establishments rose by 13.1 percent in thee State, but only 10.9 percent in the nation.

One may sensibly wonder if the rapid rise in small units in the State portends a drastic change in the structure of the economy of the State. In 1983 as in 1984, about 55 percent of all establishments in the State employed less than 5 persons. Less than one percent of all establishments employed 500 or more persons. In both years, approximately 95 percent of all business units in the State employed less than 50 persons each. As far as the size of establishments is concerned, the Virginia economy is the direct mirror-image of that of the nation. The great preponderance of establishments are small.

But the very small units do not provide the bulk of payroll or employment. Small units merely ournumber large ones and grow in numbers at a faster rate. Thus, 56 percent of the jobs in private business establishments in Virginia are in units with 50 or more employees. Yet, these firms comprise less than 5 percent of all establishments in the State. The 100 largest establishments in the State employ over 200,000 persons, nearly 12 percent of all persons employed in the State's private sector. Yet, these units account for only one-tenth of one percent of all private establishments in the State.

Similarly, those small business establishments employing less than 50 persons provide about 38 percent of the payroll dollars generated by the private sector in the State, even though they account for 95 percent of the State's businesses and 44 percent of the employees. But those 5 percent of the establishments providing employment for 50 or more persons account for 62 percent of the payroll. The 100 largest employers in the State directly generate nearly 17 percent of the private sector's payroll, although they account for only 0.1 percent of all establishments in the State.

In short, the rapid rise of small establishments in the State of Virginia does not portend a shift to an economy where mini firms dominate in employment and payroll. These small units add dynamic vibrancy to the economy, and many of them will become Virginia's large firms in the future. However large firms still are the foundation of the economy, and their dominance in jobs and payroll will continue for many years to come.

The growth in the total number of establishments which the State has experienced is the result of a delicate balancing of several countervailing factors. On the positive side is population growth which is farily evenly distributed throughout the State's urban areas so as to encourage branching out by existing firms, the creation of new firms, the growth in the size of existing establishments, and the attraction of firms from other jurisdictions. Also on the positive side is the creation and nurturing of a favorable business environment by State and local governments.

On the negative side is the outmigration of firms to other jurisdictions whether in whole or in part, the demise of existing firms which for one reason or the other cannot make it, the consolidation of branches of existing firms mostly because the economic situations in branch locations are not profitable enough, and the shrinkage in the size of existing establishments.

The healthy economic boom experienced in Virginia has created an environment where the positive forces definitely outweigh the negative ones. In Virginia, the positive forces prevailed, for small businesses as well as large ones HJB

Table IV

Virginia Business Establishments
Calendar Year 1985

Employment Size Class	Number of Establishments	Percent of Total	Number of Employees	Percent of Total	Annual Payroll ($1,000)	Percent of Total
1-4	49,540	34.62	111,581	6.42	$ 1,791,414	3.37
5-9	24,738	17.3	162,921	9.4	2,213,078	4
10-19	34,930	24.4	469,588	27.1	5,784,696	10
20-49	19,420	13.6	581,673	33.6	14,087,429	26.4
50-99	5,052	3.5	337,807	19.4	9,633,919	18.1
100-249	3,743	2.6	560,937	32.3	12,306,140	23.1
250-499	526	0.4	178,146	10.2	3,950,179	7.4
500-999	194	0.1	129,298	7.4	2,330,493	4.4
1,000 or more	98	0.1	196,026	11.3	4,845,249	9.1
All Sizes	120,260	100.05	1,741,161	100.05	$53,150,843	100.05

Table V

Percent Changes, 1981-1985
Virginia and United States

Employment Size Class	In Number of Establishments		In Number of Employees		In Annual Payroll	
	Virginia	United States	Virginia	United States	Virginia	United States
1-4	4.45	2.65	5.25	3.45	9.05	8.25
5-9	3.7	3.2	3.8	3.3	9.9	8.8
10-19	8.4	6.2	8.2	5.6	10.7	10.2
20-49	7.8	6.4	7.4	5.5	10.9	11.1
50-99	10.8	9.0	10.4	9.0	10.5	11.4
100-249	9.3	9.8	8.9	9.4	10.1	14.3
250-499	13.1	8.8	11.2	8.4	10.1	10.9
500-999	12.0	7.8	9.9	8.1	10.0	10.8
1,000 or more	8.9	3.2	7.3	3.8	14.4	9.1
All Sizes	5.47	4.05	6.67	4.97	10.17	10.47

Source: County Business Patterns, U.S. Bureau of the Census; Economic Survey Division, Virginia (CBP-85-48 and CBP-84-48) U.S.A. (CBP-85-1 and CBP-84-1)

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BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 316 November, 1986

Business in Virginia October, 1986 Data

Bank debits, electricity consumed, and water consumed all showed high growth rates in October compared to October 1985. All three of these series also grew at a higher rate than their cumulative percentage changes for the year to date. That implies to us that general business activity rose strongly in October.

All of the other October indicators also recorded good year-over-year growth, although not necessarily at an accelerating rate. The sales per store by our sample of retail businesses rose by 5.5 percent, a rate which did exceed both the August and cumulative year-to-date growth rates. New car registrations showed a good gain, 9.7 percent, in October. That gain, though, was a pullback from the 19.5 percent surge in September and falls short of the 13.5 percent cumulative advance.

Building permits advanced statewide by 14.7 percent in October after declines in August and September. However the October growth rate was below the cumulative 1986 increase, still providing evidence that planned new construction is slowing down following the hectic pace in the middle of the year.

For September the nonagricultural employment growth of 3.4 percent reveals a continuing deceleration in the growth of net new payroll jobs, pulling the cumulative increase through September down to 4.0 percent. The yearly gain will slip further in the fourth quarter, most likely yielding an annual increase for 1986 of 3.7 percent. Taxable retail sales did rebound to an even 10 percent gain in September. However we expect statewide taxable sales gains in the fourth quarter to be closer to eight percent, pulling the overall 1986 increase down to 8.6 percent, as shown in Table V. The Christmas season will be bright, but with slower growth in jobs and trade expected it is not likely to be considered outstanding by most of Virginia's businesses.

RLP

The National Economic Outlook for 1987

November marks the fourth anniversary of the current expansion, making it the second longest peacetime expansion since World War II. A fifth anniversary now seems almost certain, setting a new postwar record for longevity during peacetime, surpassing the 58-month expansion in the second half of the seventies.

The nation's real output of goods and services grew by 2.7 percent in 1985. Real growth in 1986 is expected to be 2.6 percent, almost identical to the 1985 pace. Our forecast for 1987 is another year of moderate growth, with real Gross National Product (GNP) again rising by 2.6 percent.

Our 1987 forecast matches the consensus forecast of 51 economists reported in the November issue of Blue Chip Economic Indicators. Their predictions for real GNP growth in 1987 average to 2.6 percent. Not everyone, of course, is predicting a 2.6 percent rate. However, nearly all economists agree that the two sources of strength in the economy will be continued growth in consumer demand and an improvement in our international trade. Differences in the forecasted 1987 growth rates mainly stem from disagreement about the amount of strength provided by these two sources.

The Bureau's estimates of 1986 demand and output and our forecasts for 1987 are given in Table IV. All amounts are stated in 1982 dollars, thus eliminating the effects of inflation. All of the growth rates therefore are real rates of change, showing the predicted percentage changes in the physical volume of goods and services.

As shown, the nation's domestic final demand consists of consumer demand; private fixed investment which is demand for business structures, equipment, and residential housing; and government purchases of goods and services.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

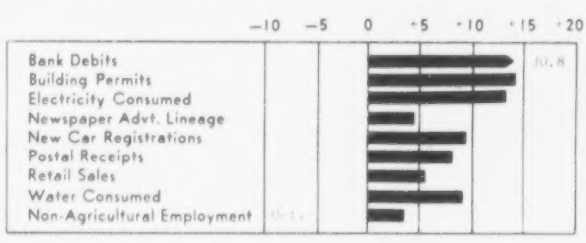
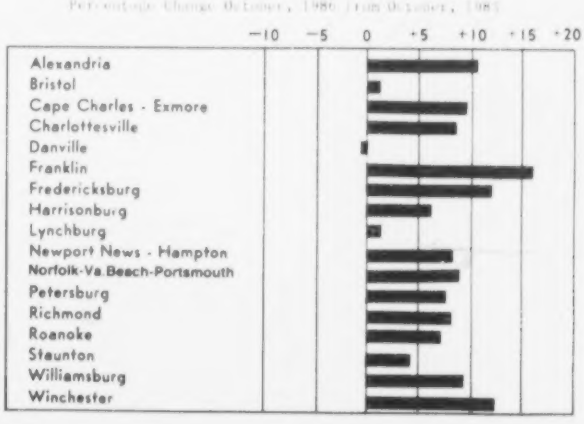


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I October 1986

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977). Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	September NON-AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		249.9	261.8	112.9	116.1	167.5	134.3	99.9	176.2	151.2
Alexandria	160.0	24.3	138.9	141.1	N.A.	144.8	127.9	110.4	181.3	N.A.
Bristol	145.8	N.A.	55.0	76.1	82.2	97.4	109.9	114.3	149.9	182.7
Cape Charles - Exmore	123.1	N.A.	126.3	119.7	N.A.	104.9	N.A.	N.A.	106.1	140.1
Charlottesville	196.0	N.A.	154.5	128.5	N.A.	141.1	108.0	137.8	241.3	324.8
Danville	126.3	N.A.	92.8	121.3	139.5	85.9	97.8	90.1	N.A.	204.0
Franklin	159.4	N.A.	47.5	113.8	129.4	182.0	N.A.	102.3	110.4	136.2
Fredericksburg	119.7	175.6	485.7	N.A.	175.7	176.9	N.A.	78.6	95.6	N.A.
Harrisonburg	172.2	381.6	931.1	N.A.	141.7	96.2	N.A.	140.8	177.5	289.4
Lynchburg	223.4	341.6	317.9	113.4	N.A.	85.6	100.1	124.3	176.9	841.1
Newport News - Hampton	141.4	N.A.	218.1	119.0	103.4	101.3	134.9]	138.0	178.3	N.A.
Norfolk - Va. Beach - Portsmouth	184.6	464.7	161.3	143.6	100.4	121.2		89.7	269.0	N.A.
Petersburg	138.7	281.5	202.6	N.A.	35.4	7.2	122.6]	96.0	178.0	244.0
Richmond	162.5	293.7	216.2	147.8	121.6	124.		116.3	156.4	320.5
Roanoke	151.3	381.0	41.1	101.6	183.3	99.0	117.2	102.8	136.1	349.9
Staunton	92.5	100.8	137.0	N.A.	90.8	86.2	N.A.	N.A.	110.5	267.4
Williamsburg	173.7	N.A.	47.5	161.4	N.A.	139.0	N.A.	130.9	125.0	409.5
Winchester	172.3	410.4	270.1	134.8	237.2	145.0	N.A.	N.A.	N.A.	N.A.

TABLE II October 1986

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	September NON-AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	September RETAIL SALES ‡
The State		30.8	14.7	13.6	4.6	9.7	3.4	9.1	5.5	10.0
Alexandria	10.2	5.9	-28.4	21.3	N.A.	8.0	5.3	14.9	9.1	4.9
Bristol	1.5	N.A.	-63.5	-9.8	9.7	18.7	2.7	4.9	-1.8	-7.2
Cape Charles - Exmore	9.2	N.A.	-71.7	19.0	N.A.	21.7	N.A.	25.3	-4.1	10.7
Charlottesville	8.5	N.A.	-18.7	16.5	N.A.	43.0	5.0	6.2	-1.5	1.6
Danville	-0.2	N.A.	3.8	9.5	5.9	-15.3	0.3	-4.6	N.A.	2.8
Franklin	15.7	N.A.	-48.3	14.8	4.6	141.3	N.A.	6.8	-4.2	-29.2
Fredericksburg	12.3	9.8	-45.6	N.A.	7.2	33.3	N.A.	22.7	15.5	7.5
Harrisonburg	6.1	27.8	370.5	N.A.	5.8	14.0	N.A.	1.0	0.3	20.7
Lynchburg	1.2	7.3	-16.3	3.0	N.A.	8.0	4.0	-9.8	0.2	3.5
Newport News - Hampton	8.0	N.A.	-35.8	13.6	3.9	-2.1	2.1]	20.5	4.5	20.9
Norfolk - Va. Beach - Portsmouth	8.5	93.8	-49.1	12.2	5.0	0.5		7.9	9.2	20.8
Petersburg	7.5	48.8	43.5	N.A.	-17.6	16.1	1.3]	-3.8	19.4	5.4
Richmond	8.1	22.6	31.7	12.3	-3.4	13.3		11.6	7.6	14.6
Roanoke	7.0	-7.5	-37.8	6.9	5.8	37.5	1.4	8.1	0.9	0.8
Staunton	4.0	8.1	250.0	N.A.	10.5	6.7	N.A.	N.A.	3.1	-2.8
Williamsburg	9.3	N.A.	-91.5	10.9	N.A.	-9.9	N.A.	22.6	13.6	0.4
Winchester	12.4	7.5	81.4	13.0	21.3	8.9	N.A.	N.A.	N.A.	6.5

TABLE III

Percentage Change January - October from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	Jan.-Sept. NON-AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	Jan.-Sept. RETAIL SALES ‡
The State		23.2	19.3	8.8	4.4	13.5	4.0	5.6	3.8	9.4
Alexandria	6.6	27.6	-50.8	13.2	N.A.	15.2	7.3	-2.6	2.6	12.1
Bristol	2.9	N.A.	-48.9	6.6	2.2	18.1	5.1	8.6	-7.9	8.9
Cape Charles - Exmore	7.6	N.A.	47.0	9.9	N.A.	25.2	N.A.	25.9	-5.2	8.0
Charlottesville	7.0	N.A.	-18.5	7.7	N.A.	9.4	3.5	9.7	4.6	11.8
Danville	3.4	N.A.	18.2	5.4	1.2	7.6	0.2	-0.1	N.A.	6.0
Franklin	10.4	N.A.	-12.6	8.2	3.8	79.6	N.A.	4.6	-1.6	-7.9
Fredericksburg	12.4	3.7	-19.0	N.A.	6.3	19.1	N.A.	11.0	12.8	12.1
Harrisonburg	7.8	N.A.	21.1	N.A.	1.0	14.9	N.A.	3.6	6.1	16.8
Lynchburg	6.0	7.0	-6.2	6.4	N.A.	2.8	2.2	2.4	8.2	9.3
Newport News - Hampton	6.8	N.A.	56.0	8.7	4.1	9.4	4.0]	4.8	6.6	10.2
Norfolk - Va. Beach - Portsmouth	8.3	29.8	20.9	7.5	4.7	10.7		11.7	8.5	10.4
Petersburg	4.6	51.8	149.6	N.A.	N.A.	14.1	2.1]	3.6	2.2	5.5
Richmond	4.7	28.7	-0.1	6.2	-1.7	14.6	2.7	3.1	3.8	6.2
Roanoke	5.7	-5.4	1.4	6.6	9.4	15.6	N.A.	8.5	-1.0	11.6
Staunton	4.2	11.9	13.1	N.A.	8.4	15.8	N.A.	N.A.	-3.2	10.5
Williamsburg	6.2	N.A.	32.8	6.3	N.A.	18.4	N.A.	5.1	6.3	-5.2
Winchester	14.5	-0.7	-14.4	8.0	12.1	20.9	N.A.	N.A.	N.A.	17.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
⊃Only total MSA data are available for these areas.

N.A. — Not Available
O.O. — No Change

We predict that all three components of domestic final demand will grow less in 1987 than in 1986. Government purchases in real terms will only grow about 1.5 percent, less than one-half of the 1986 growth rate. Fixed investment most likely will decline slightly as the continuing slowdown in construction is reinforced by the adverse effects of tax reform. Our forecast is a one percent drop in fixed investment.

However, the major source of slower domestic demand growth will be slower real growth in consumption in 1987. Consumers provided the only real strength in 1986, increasing their real outlays by 3.9 percent. Falling interest rates, gasoline prices, and inflation in general spurred consumer purchases in 1986. Real disposable income also grew more rapidly in 1986 than in 1985. In 1987, consumers will not have as much incentive or ability to increase their demand for goods and services. Interest rates are likely to remain close to current levels for most of the year. Our forecast for the Consumer Price Index is a 3.2 percent rise in 1987, compared to only 1.9 percent in 1986. Furthermore, the real value of disposable personal income will grow at a slower 2.3 percent rate in 1987, down almost a point from the 3.2 percent expected for 1986. In that environment, we predict real consumer demand will rise by only 2.7 percent in 1987. That makes consumption growth again the major source of strength in domestic demand for goods and services. But, clearly not as strong a force as in 1986.

Therefore our assessment of the nation's domestic sources of demand yields a forecast of only a 1.8 percent real gain in domestic final demand. We agree with the majority of forecasters that output growth higher than that must, and will, come from a reversal (finally!) in the pattern of growth in the nation's exports and imports. The real value of our exports is beginning to rise, and the rising prices of imports are expected to slow the growth in the volume of imports. Our projection is the net export deficit (exports minus imports) will narrow, from an estimated $144 billion (1982$) in 1986 to $122 billion (1982$) in 1987. That improvement of $22 billion will be a fifteen percent swing in our favor for the trade balance. The addition to the real GNP growth rate will be 0.7 percent, a small but welcome boost to the nation's real output.

Adding in allowance for some additions to business inventories, the bottom line is a forecasted real GNP in 1987 of $3,775 billion (1982$), yielding a real growth rate of 2.6 percent. That will be lower than we would like to see, but at least it will be another twelve months of real expansion in the nation's output. The inflation rate will increase, but still be in a reasonable range. Out forecast is an inflation rate of 3.2 percent, for both the Consumer Price Index and the GNP Implicit Price Deflator. RLP

The Virginia Economic Outlook for 1987

Our 1987 forecast for the Commonwealth is slower growth than in 1986, in both nominal (current dollar) and real terms. That runs counter to the national forecasts, where we expect the real growth rate to be unchanged. Why this divergence between the state and nation's growth paths?

In several issues this year (May, June, July, September, and October) we have documented Virginia's outstanding growth in recent years, growth far exceeding the nation's performance. As reported in September, Virginia's total personal income grew by 29.7 percent from 1982 through 1985, the seventh highest growth among the fifty states. However, Virginia's exceptional boom has not consisted solely of superior long-run trend relationships, sustainable for years to come. In part the state's booming growth has been built on our own favorable cyclical forces, such as the extraordinary surge in construction since 1982. We already have begun to see signs of decelerating growth as those cyclical influences wind down, and there will be more widespread deceleration in 1987. Even with slower growth Virginia still will outpace the nation in 1987. However the state's margin of superiority will narrow in the coming year.

The Commonwealth's 1985 values, estimates for 1986, and forecasts for 1987 for key variables such as personal income, retail sales, and nonagricultural employment (place of work) are given in Table V. Both resident personal income and retail sales are shown only in current dollar amounts since we do not have appropriate price indexes with which to deflate the state figures. However, inflation as measured by the national Consumer Price Index (3.5 percent in 1985, an estimated 1.9 percent in 1986, and a predicted 3.2 percent in 1987) can be used to derive the approximate real income growth in Virginia.

By U.S. Department of Commerce estimates, Virginia achieved an 8.4 percent increase in resident personal income in 1985. We predict the 1986 growth rate will be 7.0 percent, a drop of 1.4 percentage points. Adjusting for inflation gives a different perspective. Virginia's real income rose by almost five percent in 1985. With the low national inflation rate of 1.9 percent this year, the state's real income growth will remain about 5 percent in 1986. However the 1987 outlook is for a decline in the state's income growth in both current dollar and real terms. We predict the total personal income of Virginians will rise by 6.1 percent in 1987. Adjusting for a national inflation rate of 3.2 percent, the real income increase is projected to fall to 2.8 percent.

Similar relationships are forecasted for retail sales. In current dollar amounts we expect retail sales growth to drop from the 9.6 percent realized in 1985 to 8.6 percent in 1986 and then 7.4 percent in 1987. Due to the higher inflation rate forecast for 1987, that translates into an even larger slowdown in real growth for retail trade next year.

Nonagricultural employment growth already has been decelerating for two years. These payroll jobs rose by 5.7 percent in 1984, followed by a 4.9 percent increase in 1985. Based on 1986 statistics through September we estimate the year-over-year gain for 1986 will be 3.7 percent. By industry sector, we expect construction, private (wholesale and retail) trade and services, and government employment will rise by smaller percentages in 1986 than 1985.

For 1987, our forecast is nonagricultural employment growth will slow even further, to a 2.3 percent annual increase. The major reason for the slower growth will be another decline in the growth rate for private trade and service jobs, accompanying the generally lower growth in real income and retail trade. Another contributing factor will be a modest decline in building activity. Construction will be at a high level, and the projected 1987 construction employment of 158,000 persons will be the second highest level of employment in that industry in Virginia's history, second only to 1986. However, our evidence suggests Virginia's building boom has passed its peak and a moderate decline can be expected next year. With a decline in construction employment and slower growth in trade and service jobs, the modest gains in manufacturing and government jobs will not be sufficient to hold total employment growth to the 1986 pace.

Our view is most segments of the Virginia economy will experience slower growth in 1987 — still above the national average but by a slimmer margin. RLP

TABLE IV

THE U.S. ECONOMY
FORECASTS FOR 1986 AND 1987 CALENDAR YEARS
IN 1982 DOLLARS

	1986 ($Bill.1982$)	% Change 1985-1986	1987 ($Bill.1982$)	% Change 1986-1987
Domestic Final Demand				
Personal Consumption	$2,415	3.9%	$2,480	2.7%
Private Fixed Investment	650	1.9	644	-1.0
Government Purchases	744	3.2	755	1.5
Total Domestic Final Demand	$3,809	3.4%	$3,879	1.8%
Plus: Net Exports	-144	+33.1	-122	-15.3
Equals: Final Sales	$3,665	2.5%	$3,757	2.5%
Plus: Change in Inventories	15	N.A.	18	N.A.
Equals: Gross National Product	$3,680	2.6%	$3,775	2.6%
Disposable Personal Income	$2,610	3.2%	$2,670	2.3%
Saving Rate	4.3%	N.A.	3.9%	N.A.

N.A.: Not Applicable

Source: Bureau of Business Research, College of William and Mary, November 18, 1986

TABLE V

THE VIRGINIA ECONOMY
ACTUAL VALUES FOR 1985 AND FORECASTED VALUES
FOR 1986 AND 1987

	1985		1986		1987	
	Level	Percent Change	Level	Percent Change	Level	Percent Change
Resident Personal Income ($mills.)	$82,980	8.6%	$88,790	7.0%	$94,210	6.1%
Taxable Retail Sales ($mills.)[a]	$31,214	9.6%	$33,900	8.6%	$36,410	7.4%
Nonagricultural Employment (thous.)	2,447.1	4.9%	2,538	3.7%	2,597	2.3%
Manufacturing	423.3	0.5%	428	1.1%	432	0.9%
Mining	17.3	-5.5%	17	-1.7%	17	0.0%
Construction	151.3	13.9%	165	9.1%	158	-4.2%
Private Trade and Services	1,337.6	6.5%	1,402	4.8%	1,455	3.8%
Government	517.6	2.5%	526	1.6%	535	1.7%

[a]Retail sales subject to the Virginia Retail Sales and Use Tax.

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BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 317 January, 1987

Business in Virginia
November and December, 1986 Data

In November, bank debits, building permits, electricity consumed, and newspaper advertising lineage were the high-growth indicators. The first three of these are evidence of continued strong growth of goods production in Virginia. Nonagricultural employment rose by 3.4 percent in November compared to November 1985, slightly above October's 3.3 percent gain. Thus payroll job growth, while below the 4.2 percent rate of November 1985, was steady as we approached the year's end.

New car registrations increased by 4.6 percent in November compared to the same month last year, somewhat of a surprise after the large gains earlier in the fall. Our sample of retail stores, however, reported a very modest increase of 3.4 percent in sales per store. The taxable retail sales data for October revealed an 8.0 percent decline statewide, with decreases in most of the urban areas we track. Therefore both of our retail sales measures showed a slow start in fourth quarter consumer spending in Virginia.

In December, bank debits continued to grow strongly, up by 20.0 percent. Building permit growth also remained strong with a 15.5 percent rise. The most remarkable report was new car registration, soaring by 35.2 percent compared to December of 1985. Many Virginians evidently did decide to beat the January 1 tax changes. For retailers in our sample, the December sales growth per store was a more moderate 5.6 percent. An acceleration from November's growth rate but not evidence of booming Christmas sales.

The preliminary data now available to us indicate that December was a month of relatively steady, moderate growth with the notable exception of the new car sales. That performance means that we are entering 1987 with less momentum than existed at the beginning of 1986. RLP

The Virginia Economy in 1986

The Virginia economy grew more slowly in 1986 than in 1985, as expected. As we move into 1987, a review of the path followed in 1986 provides a healthy perspective . The closing months of 1985 produced accelerating growth in income and payroll jobs, giving us good momentum as 1986 began. The first quarter of 1986 offered little evidence of decelerating growth. Early federal reports showed Virginia's personal income grew at a 10.1 percent annual rate between the fourth quarter and first quarter, the second highest rate among the fifty states. That later was revised upwards to an 11.4 percent rate. On a first quarter to first quarter basis, the income gain was a more modest but still outstanding 7.7 percent. Payroll job growth remained very strong in the first quarter, up 4.8 percent compared to the first quarter of 1985. New car sales continued to boom, up 15.4 percent over the same period in 1985. First quarter growth rates for general retail sales and for building permits were lower than in 1985, but the high income growth and declining interest rates pointed towards accelerating growth for these sectors in the second quarter.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

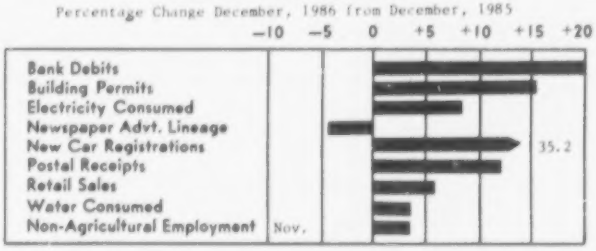

Chart II

City Indices